Guest Editor Introduction

The papers offered in this special issue of *Panoeconomicus* have been presented at the Conference "Avramović: Hyperinflation, Stabilization and Reforms", held at Serbian Academy of Sciences and Arts (SASA) on November 25th 2019, which was dedicated to Dragoslav Avramović, the man who put a stop to one of the most extreme hyperinflations in the economic history, the Serbian one of 1992-1994. The first, Serbian versions of the papers have been published in the proceedings from the conference in 2021[1], while the current versions represent substantially revised papers prepared for international audience.

The Serbian hyperinflation lasted for two years and by the end, it recorded peak monthly rate of 313 million per cent, which puts this episode among few most extreme ones. The hyperinflation emerged in the early 1990s, when Serbia was strongly hit by a number of adverse shocks: dismembering of the former Yugoslavia, involvement in ensuing war in the region, extensive UN economic sanctions, delayed transition of its self-managed economic system etc.

By the end of January 1994, hyperinflation was spectacularly halted without any foreign support, notably that from the IMF, and despite severe UN economic sanctions, while economic activity immediately started to recover. Dragoslav Avramović was instrumental in this endeavour by designing the programme and subsequently, as the Central Bank governor, implementing it. It was soon after he returned to Serbia in his 70s, following his brilliant international career, notably in the World Bank (see the paper by Dušan Vujović in this Volume), which made him an outsider to the political and economic elite of that period in the country.

Under the abovementioned constraints, Avramović opted for monetary reform by introducing the new, convertible dinar, while structural reforms, particularly fiscal consolidation but also starting-up transition, that is, privatisation, bank restructuring, etc., were postponed. Even without policy regime change, hyperinflation was stopped in a week time, unleashing favourable dynamics such as increase in dinar holdings (partial remonetisation) and higher tax collection (the inverse Tanzi effect). The latter offered breathing space for designing reforms and building social consensus around them and turning to its implementation. Unfortunately, this time, Avramović failed in his attempts.

The papers presented in this Volume address the abovementioned issues. Thus, they explore causes, dynamics and political economy of the extreme Serbian hyperinflation. Then, they analyse the stabilization programme, notably its inverse

[1] *Avramović: Hyperinflation, Stabilisation and Reforms*, editor Pavle Petrović, SASA, book 46, Belgrade 2021. We refer to Serbia while the country at that time: FR Yugoslavia included also Montenegro, since Serbia represented 95% of then Yugoslavia, and had control over economic policy that led to hyperinflation and subsequent stabilization.

sequencing, that is, postponing of fiscal adjustment and reforms while introducing up-front convertible currency. Finally, the papers investigate why structural reforms were rejected, triggering a new inflation although well below hyperinflation level.

Most of the contributors in this volume had collaborated closely with Avramović during 1990s, either on designing the stabilization programme, its implementation, or on ensuing attempts to reform Serbian economy. The remaining ones had thoroughly followed developments, often with critical distance. Therefore, the authors in this special issue have personal insight in this extraordinary enterprise of policy making – dilemmas emerged, attempted paths, political constraints faced, etc. Accordingly, besides analytical, academic contribution, the papers offer an inside view on policy making process, thus contributing to understanding of political economy of exceptional stabilization undertakings. Moreover, the hands-on experience that the authors reported in their papers provides valuable contribution to economic history that addresses hyperinflation episodes. Finally, the presented papers are complementary as they explore the same phenomenon from various perspectives, thus making this volume a cohesive reading.

This Issue commences with the paper by Ljubomir Madžar that addresses all three big themes: the causes of hyperinflation, sustainability of stabilization and failed attempts to reform Serbian economy, from the political economy perspective. Madžar shows that incoherent institutional framework was the main obstacle for lasting stabilization, while its reform was blocked by political and economic elite since these reforms would dethrone them. Thus, he concluded that major political reform and change were needed for stabilization in Serbia, and this view was validated by developments in the aftermath of democratic changes in Serbia in 2000.

The subsequent papers focus on specific themes. Thus, Željko Bogetić, Diana Dragutinović, and Pavle Petrović thoroughly explore the causes and dynamics of Serbian hyperinflation and ensuing stabilization, employing the corresponding theoretical framework but also Mr. Avramović's personal role and contribution. Accordingly, they found that the transmission mechanism ran from monetization of fiscal and quasi-fiscal deficit directly to exchange rate depreciation and only subsequently to inflation, that inflationary inertia completely disappeared, and that the public almost entirely abandoned dinar (demonetization) as hyperinflation was peaking. At a latter point, they showed that seigniorage had started to decline (the wrong side of the Laffer curve) and tax revenues plummeted (Tanzi effect). These findings explain the timing of stabilization as well as the type of programme undertaken, that is, the exchange rate based one.

Complementing the abovementioned findings, Milojko Arsić explores the role of the UN trade embargo in triggering hyperinflation, and shows that it was not a decisive factor, but rather that the political elite chose to go down the easier but short-sighted path by accommodating this adverse shock with excessive money printing. That this course was not destined, Arsić demonstrated by invoking another huge adverse shock, that is, NATO bombardment of Serbia in 1999, to which the government reacted with controlled monetary expansion. Obviously, the lesson from extreme hyperinflation had been learnt. Nevertheless, the UN economic sanctions added to inflation surge, and Arsić assesses its impact.

The issue of timing when the programme was enacted, analysed in the previous two papers, is distinctly explored in the paper by Dejan Popović. Namely, the paper offers a testimony from the meeting when Avramović presented his programme to then president Milošević, an autocratic ruler, and to political and economic elite. This extraordinary reading gives a first-hand glimpse into political economy of policy making in extremely adverse conditions.

The reviewed papers also, to a different extent and from alternative perspectives, explore the enacted stabilization programme, assessing its unorthodox approach (Madžar; Bogetić, Dragutinović, and Petrović; Arsić), its specific developments (e.g. tax policy, Popović), and reviewing its successes – instant halt of hyperinflation, increase in tax collection and return to dinars, growth in economic activity and wages, but also programme's limitations, the main being its sustainability.

In her paper, Danica Popović takes a step back and compares two hyperinflations that Serbia experienced, one short-lived and moderate in 1989 and the extreme 1992-1994 one. Apart from comparing the hyperinflations' causes and dynamics, Popović confronts the two stabilization programmes, both being exchange rate based, their initial spectacular success and subsequent failure as each programme hit against the wall of nonreformed economy and society. Equally intriguing is the comparison of two instrumental figures in halting respective hyperinflations: Ante Marković and Dragoslav Avramović, and their fate during and in the aftermath of the stabilization they respectively pursued.

Dejan Šoškić takes an even further step back by analysing the consequences hyperinflation, stabilization and postponed reforms in the 1990s had on Serbia today. Thus, he shows that, despite significant reforms pursued in the 2000s, Serbia still does not have a fully-fledged independent central bank, it experiences considerable euroization, and suffers from low domestic savings. All this can be traced back to the events of the 1990s, analysed in this volume.

A common theme in the previously reviewed papers is that stabilization could not have lasted without structural reforms, of which Avramović was aware when he advanced reform package (Programme II) akin to that applied in transition economies (cf. Arsić for a review). The enormous task of reforming Serbian economy illustrates the then state of banking sector, which is thoroughly examined in the paper by Branko Urošević, Boško Živković, and Nikola Vasiljević. They show how the banking system in Serbia sharply deteriorated as a result of interaction of hyperinflation, financial repression and financial crisis.

Nevertheless, of all reforms proposed paradigmatic is the fate of an intent to privatize dominantly state (socially) owned Serbian economy. In her paper, Milica Uvalić presents an inside view on how privatization programme evolved through Avramović's attempts to build consensus of key stake holders around it, while keeping relatively sound programme's conceptual foundation. For six months, she was his closest associate in this endeavour, only to witness the failure of this venture, so distinct that it was a trigger of Avarmović's removal as the Central Bank governor. The large-scale privatization turned out to be a red line that political and economic elite could not surpass as they rightly realised that this would dislodge them from the political and economic power.

Yet another shared topic in the reviewed papers is the role of an individual, in our case Avramović, in designing and more importantly implementing programme that successfully eradicates extreme episodes like Serbian hyperinflation (e.g. Bogetić, Dragutinović, and Petrović). In his paper, Dušan Vujović rounds-up this subject by offering an analytical overview of Avramović's achievements prior to the one explored in this Volume.

Finally, two econometric studies are also included in this Volume as they are related to the main topic, that is, the role of monetary policy in Serbia in time of crisis. Thus, Milan Nedeljković and Nebojša Savić explore effects of the European Central Bank policy during the Euro crisis 2008-2012 on country risk premium and exchange rate in Serbia. On the other hand, Miloš Božović contributes to the economic history of Serbia by exploring the sudden stop in supply of gold and silver from mines in Serbia and Bosnia to the Venetian Republic during 15^{th} century and its impact on the Republic's debt servicing.

Lastly, let me express my gratitude to the editorial board of *Panoeconomicus* for the opportunity to publish this collection of papers that address an extraordinary episode of Serbian hyperinflation and stabilization.

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